
FEDERAL BORROWING AND DEBT

11. FEDERAL BORROWING AND DEBT

Debt is the largest legally binding obligation of the Federal Government. At the end of 1995 the Government owed \$3,603 billion of principal to the people who had loaned it the money to pay for past deficits. The gross Federal debt, which also includes the securities held by trust funds and other Government accounts, was \$4,921 billion. This year the Government is estimated to pay about \$247 billion of interest to the public on its debt.

The present deficit is continuing to increase the amount of Federal debt held by the public. However, the Omnibus Budget Reconciliation Act of 1993 and the strong economic expansion have reduced the size of the deficit for three consecutive years, and the Administration is proposing steps to meet its goal of balancing the budget by 2002. The reduction in the deficit

over the next few years will lower the growth of the debt further and will decrease debt held by the public as a percentage of the Nation's gross domestic product (GDP).

Trends in Federal Debt

Federal debt held by the public has increased five-fold since 1980, as shown in Table 11-1. In 1980 it was \$709.8 billion; by the end of 1995 it stood at \$3,603.4 billion. The data in this table are supplemented for earlier years by Tables 7.1-7.3 in *Historical Tables*, which is published as a separate volume of the budget.

At the end of World War II, Federal debt was more than 100 percent of GDP. From then until the 1970s, Federal debt grew gradually, but, due to inflation, it

Table 11-1. TRENDS IN FEDERAL DEBT HELD BY THE PUBLIC

(Dollar amounts in billions)

Fiscal year	Debt held by the public		Debt held by the public as a percent of:		Interest on debt held by the public as a percent of: ⁴	
	Current dollars	Constant CY 1992 dollars ¹	GDP ²	Credit market debt ³	Total outlays	GDP
1950	219.0	1,235.3	80.1	55.3	11.4	1.8
1955	226.6	1,092.9	57.3	43.3	7.6	1.3
1960	236.8	1,025.3	45.6	33.8	8.5	1.5
1965	260.8	1,051.5	38.0	26.9	8.1	1.4
1970	283.2	950.3	28.1	20.8	7.9	1.5
1975	394.7	699.3	25.4	18.4	7.5	1.7
1980	709.8	1,203.1	26.1	18.4	10.6	2.3
1981	785.3	1,213.8	25.8	18.5	12.1	2.7
1982	919.8	1,329.2	28.6	19.8	13.6	3.1
1983	1,131.6	1,563.0	33.1	21.9	13.8	3.3
1984	1,300.5	1,727.1	34.0	22.1	15.7	3.5
1985	1,499.9	1,927.9	36.5	22.3	16.2	3.7
1986	1,736.7	2,170.9	39.8	22.6	16.1	3.6
1987	1,888.7	2,292.1	41.0	22.3	16.0	3.5
1988	2,050.8	2,404.2	41.4	22.3	16.2	3.5
1989	2,189.9	2,463.3	40.9	22.0	16.5	3.5
1990	2,410.7	2,606.2	42.4	22.5	16.2	3.6
1991	2,688.1	2,785.6	45.9	24.0	16.2	3.7
1992	2,998.8	3,016.9	48.8	25.5	15.5	3.5
1993	3,247.5	3,183.8	50.2	26.4	14.9	3.2
1994	3,432.1	3,287.5	50.2	26.5	14.4	3.1
1995	3,603.4	3,370.8	50.2	26.3	15.7	3.3
1996 estimate	3,768.7	3,429.2	50.1	.....	15.7	3.3
1997 estimate	3,933.0	3,483.6	49.7	.....	15.0	3.1
1998 estimate	4,057.5	3,500.8	48.8	.....	14.4	2.9
1999 estimate	4,150.6	3,485.0	47.5	.....	14.0	2.8
2000 estimate	4,207.1	3,442.8	45.8	.....	13.5	2.6
2001 estimate	4,226.7	3,365.2	43.8	.....	13.0	2.4
2002 estimate	4,209.6	3,265.8	41.5	.....	12.4	2.3

¹ Debt in current dollars deflated by the GDP chain-type price index with calendar year 1992 equal to 100. For 1950 and 1955, indexes were not available from the recent comprehensive revision of the national income and product accounts. Estimates of the index for those years were based on the ratio between the GDP chain-type price index and the unrevised implicit GDP deflator for FY 1960.

² GDP from the recent comprehensive revision of the national income and product accounts except for 1950 and 1955. Estimates of GDP for those years were based on the ratio between revised and unrevised GDP for FY 1960.

³ Total credit market debt owed by domestic nonfinancial sectors, modified to be consistent with budget concepts for the measurement of Federal debt. Financial sectors are omitted to avoid double counting, since financial intermediaries both borrow and lend in the credit market. Source: Federal Reserve Board flow of funds accounts. Projections are not available.

⁴ Interest on debt held by the public is estimated as the interest on the public debt less the "interest received by trust funds" (subfunction 901 less subfunctions 902 and 903). It does not include the comparatively small amount of interest on agency debt or the offsets for interest on public debt received by other Government accounts.

declined significantly in real terms. Because of an expanding economy as well as inflation, Federal debt as a percentage of GDP decreased almost every year. With households borrowing heavily to buy homes and consumer durables, and with businesses borrowing heavily to buy plant and equipment, Federal debt also decreased almost every year as a percentage of the total credit market debt outstanding. The cumulative effect was impressive. From 1950 to 1975, debt held by the public declined from 80.1 percent of GDP to 25.4 percent, and from 55.3 percent of credit market debt to 18.4 percent. At the same time, despite rising interest rates, interest outlays became a smaller share of the budget and were roughly stable as a percentage of GDP.

During the 1970s, large budget deficits emerged as the economy was disrupted by oil shocks and inflation. The nominal amount of Federal debt more than doubled, and, despite high inflation, the real value of Federal debt increased by a fourth. The ratios of Federal debt to GDP and credit market debt stopped declining after the middle of the decade.

The growth of Federal debt held by the public accelerated during the early 1980s due to very large budget deficits. Since the deficits have continued to be large, debt has continued to grow substantially, although the rate of increase has been slowed. With inflation reduced, the rapid growth in nominal debt has meant a rapid growth in real debt as well. The ratio of Federal debt to GDP rose from 26.1 percent in 1980 to 50.2 percent in 1993, the highest ratio since the mid-1950s. The ratio of Federal debt to credit market debt also rose, though to a much lesser extent, from 18.4 percent to 26.4 percent. Interest outlays on debt held by the public, calculated as a percentage of both total Federal outlays and GDP, increased by about two-fifths.

Federal debt held by the public increased more slowly in 1994 than in any year since 1979, and it increased more slowly still in 1995. In both years it approximately stayed the same relative to GDP and total credit market debt. Table 11-1 shows that debt as a percentage of GDP is estimated to decline further from 50.2 percent in 1995 to 41.5 percent in 2002. The improvement in the past two years reflects the \$505 billion deficit reduction package enacted by the Omnibus Budget Reconciliation Act of 1993 and the continuing economic expansion. The further improvement to 2002 reflects the proposal for a balanced budget and the expectation that economic growth will continue at a moderate pace for the foreseeable future.¹ Interest outlays on the debt held by the public are estimated to decline relative to both total outlays and GDP over the next few years.

Debt Held by the Public and Gross Federal Debt

The Federal Government issues debt for two principal purposes. First, it borrows from the public in order to finance the Federal deficit. Second, it issues debt

to Government accounts, primarily trust funds, that accumulate surpluses. By law, most trust fund surpluses must be invested in Federal securities. The gross Federal debt is defined to consist of both the debt held by the public and the debt held by Government accounts. Nearly all the Federal debt has been issued by the Treasury and is formally called "public debt," but a small portion has been issued by other Government agencies and is called "agency debt."²

Borrowing from the public, whether by the Treasury or by some other Federal agency, has a significant impact on the economy. Borrowing from the public is normally a good approximation to the Federal demand on credit markets. Even if the proceeds are used productively for tangible or intangible investment, the Federal demand on credit markets has to be financed out of the saving of households and businesses, the State and local sector, or the rest of the world.³ Federal borrowing therefore competes with the borrowing of other sectors for financial resources in the credit market and affects interest rates. Borrowing from the public moreover affects the size and composition of assets held by the private sector and the perceived wealth of the public. It also affects the amount of taxes required to pay interest to the public on Federal debt. Borrowing from the public is therefore an important concern of Federal fiscal policy.

Issuing debt securities to Government accounts performs an essential function in accounting for the operation of these funds. The balances of debt represent the cumulative surpluses of these funds due to the excess of their tax receipts and other collections compared to their spending. These balances can be used in later years to finance future payments to the public. The interest on the debt compensates these funds—and the members of the public who pay earmarked taxes or user fees into these funds—for spending some of their collections at a later time than when they receive it. Public policy may deliberately run surpluses and accumulate debt in trust funds and other Government accounts in order to finance future spending.

However, issuing debt to Government accounts does not have any of the economic effects of borrowing from the public. It is an internal transaction between two accounts, both within the Government itself. It is not a current transaction of the Government with the public; it does not compete with the private sector for available funds in the credit market; and it does not represent the estimated amount of the account's future transactions with the public. For example, if the account records the transactions of a social insurance program, the debt that it holds does not represent the

²The term "agency debt" is defined more narrowly in the budget than in the securities market, where it includes not only the debt of the Federal agencies listed in Table 11-3 but also the debt of the Government-sponsored enterprises listed in Table 8-11 at the end of Chapter 8 and certain Government-guaranteed securities.

³The Federal sector of the national income and product accounts is a better measure of the deficit for analyzing the effect of Federal fiscal policy on national saving than is the budget deficit or Federal borrowing from the public. The Federal sector as defined prior to the recent comprehensive revisions, and its differences from the budget, are discussed in *Analytical Perspectives for Fiscal Year 1996*, Chapter 19, "National Income and Product Accounts," pp. 267-70. For a major conceptual change due to the recent revisions, see chapter 6 of this volume, Part IV.

¹Chapter 1 of this volume, "Economic Assumptions," reviews recent economic developments and explains the economic assumptions for this budget.

Table 11-2. FEDERAL GOVERNMENT FINANCING AND DEBT ¹

(In billions of dollars)

	1995 Actual	Estimate						
		1996	1997	1998	1999	2000	2001	2002
Financing:								
Surplus or deficit (–)	–163.9	–145.6	–140.1	–98.0	–64.4	–27.5	8.3	43.9
(On-budget)	–226.3	–211.0	–210.4	–175.3	–150.2	–119.7	–90.6	–62.2
(Off-budget)	62.4	65.3	70.3	77.3	85.8	92.1	98.9	106.1
Means of financing other than borrowing from the public:								
Changes in: ²								
Treasury operating cash balance	–2.0	–2.1	.....	.....	.....	.....	.....	.....
Checks outstanding, etc. ³	–2.8	–*	–3.3	.....	.....	.....	.....	.....
Deposit fund balances	0.9	0.1	–1.5	.....	.....	.....	.....	.....
Seigniorage on coins	0.7	0.7	0.6	0.7	0.7	0.8	0.8	0.8
Less: Net financing disbursements:								
Direct loan financing accounts	–7.0	–17.9	–20.8	–25.2	–27.3	–27.3	–26.7	–25.7
Guaranteed loan financing accounts	2.9	–0.4	0.8	–2.0	–2.2	–2.4	–1.9	–1.9
Total, means of financing other than borrowing from the public	–7.4	–19.6	–24.2	–26.5	–28.7	–29.0	–27.8	–26.8
Total, requirement for borrowing from the public	–171.3	–165.3	–164.3	–124.5	–93.1	–56.5	–19.6	17.1
Change in debt held by the public	171.3	165.3	164.3	124.5	93.1	56.5	19.6	–17.1
Debt Outstanding, End of Year:								
Gross Federal debt:								
Debt issued by Treasury	4,894.0	5,172.1	5,465.4	5,720.3	5,948.5	6,154.8	6,330.5	6,477.3
Debt issued by other agencies	27.0	35.2	33.4	30.1	30.0	29.9	29.6	29.2
Total, gross Federal debt	4,921.0	5,207.3	5,498.9	5,750.4	5,978.5	6,184.7	6,360.2	6,506.5
Held by:								
Government accounts	1,317.6	1,438.6	1,565.8	1,692.9	1,827.9	1,977.6	2,133.5	2,296.8
The public	3,603.4	3,768.7	3,933.0	4,057.5	4,150.6	4,207.1	4,226.7	4,209.6
Federal Reserve Banks	374.1	.....	.....	.....	.....	.....	.....	.....
Other	3,229.3	.....	.....	.....	.....	.....	.....	.....
Debt Subject to Statutory Limitation, End of Year:								
Debt issued by Treasury	4,894.0	5,172.1	5,465.4	5,720.3	5,948.5	6,154.8	6,330.5	6,477.3
Less: Treasury debt not subject to limitation ⁴	–15.6	–15.6	–15.6	–15.6	–15.6	–15.6	–15.6	–15.6
Agency debt subject to limitation	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Adjustment for discount and premium ⁵	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Total, debt subject to statutory limitation ⁶	4,884.6	5,162.7	5,456.0	5,710.9	5,939.2	6,145.5	6,321.2	6,467.9

* \$50 million or less.

¹ Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost entirely measured at sales price plus amortized discount or less amortized premium. Agency debt is almost entirely measured at face value. Treasury securities in the Government account series are measured at face value less unrealized discount (if any).² A decrease in the Treasury operating cash balance (which is an asset) would be a means of financing the deficit and therefore have a positive sign. An increase in checks outstanding or deposit fund balances (which are liabilities) would also be a means of financing the deficit and therefore have a positive sign.³ Besides checks outstanding, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on the sale of gold.⁴ Consists primarily of Federal Financing Bank debt.⁵ Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.⁶ The statutory debt limit is \$4,900 billion.

actuarial present value of expected future benefits. The future transactions of Federal social insurance and employee retirement programs, which own over four-fifths of the debt held by Government accounts, are important in their own right and need to be considered separately; this can be done through information published in actuarial and financial reports.⁴ Debt held by the public is therefore a better concept than gross Federal debt for analyzing the effect of the budget on the economy.⁵

⁴ A summary of actuarial estimates for many of these programs is prepared annually by the Financial Management Service, Department of the Treasury, in "Statement of Liabilities and Other Financial Commitments of the United States Government." The estimates in that report are not, however, all comparable with one another in concept or actuarial assumptions.

⁵ Debt held by the public was measured until several years ago as the par value (or face value) of the security, which is the principal amount due at maturity. The only exception was savings bonds. However, most Treasury securities are sold at a discount from par, and some are sold at a premium. Treasury debt held by the public is now measured as the sales price plus the amortized discount (or less the amortized premium). At the time of sale, the value equals the sales price. Subsequently, the value equals the sales price plus the amount of the discount that has been amortized up to that time. In equivalent terms, the value equals par less the unamortized discount. (For a security sold at a premium,

Borrowing and Government Deficits

Table 11-2 summarizes Federal borrowing and debt from 1995 through 2002. In 1995 the borrowing from the public was \$171.3 billion, and Federal debt held by the public increased to \$3,603.4 billion. The issuance of debt to Government accounts was \$106.0 billion, and gross Federal debt increased to \$4,921.0 billion. Borrowing from the public is estimated to decline to \$164.3 billion in 1997.

Borrowing from the public depends both on the Federal Government's expenditure programs and tax laws and on economic conditions. The sensitivity of the budget to economic conditions is analyzed in Chapter 1 of this volume.

(the definition is symmetrical.) Agency debt, except for zero-coupon certificates, is recorded at par. For further analysis of these concepts, see Special Analysis E, "Borrowing and Debt," in *Special Analyses, Budget of the United States Government, Fiscal Year 1990*, pp. E-5 to E-8, although some of the practices it describes have been changed.

Debt held by the public.—Table 11-2 shows the relationship between borrowing from the public and the Federal deficit. The total deficit of the Federal Government includes not only the budget deficit but also the surplus or deficit of the off-budget Federal entities, which have been excluded from the budget by law. Under present law the off-budget Federal entities are the social security trust funds (old-age and survivors insurance and disability insurance) and the Postal Service fund.⁶ Since social security had a large surplus in 1995 and is estimated to have even larger surpluses over the next few years, the off-budget surplus reduces the requirement for Treasury to borrow from the public by a substantial amount.

The total Federal deficit is financed either by borrowing from the public or by the other means shown in Table 11-2, such as a decrease in Treasury's cash balance. In 1995 these other accounts added up to a negative amount, -\$7.4 billion, which increased the need to borrow from the public. In some past years, the net amount of these items was positive and reduced the Government's borrowing requirements.

Many of these other means of financing are normally small relative to borrowing from the public. This is because they are limited by their own nature. Decreases in cash balances, for example, are inherently limited by past accumulations, which themselves required financing when they were built up.

However, a new and larger "other means of financing" was created by the Federal Credit Reform Act of 1990. Budget outlays for direct loans and loan guarantees consist of the estimated subsidy cost of the loans or guarantees at the time when the direct loans or guaranteed loans are disbursed. The portion of the net cash flow that does not represent a cost to the Government is non-budgetary in nature and is recorded as a transaction of the financing account for each credit program.⁷

The "net financing disbursements" of a financing account are defined in the same way as the "outlays" of a budgetary account and may be either positive or negative. They are positive if the gross disbursements by the account—whether to the public or to a budgetary account—exceed the collections from both of these sources; they are negative if the collections exceed the gross disbursements. If the net financing disbursements are positive, they must be paid in cash and thus increase the requirement for Treasury borrowing; if the net financing disbursements are negative, they provide cash to the Treasury that can be used to pay the Government's bills in the same way as tax receipts, borrowing, or any other cash collection. The financing accounts are therefore a means of financing the Government, positive or negative, just like the other means listed in Table 11-2. A positive amount of net financing dis-

bursements is shown in the table by the financing account having a negative sign, like the deficit, so that it is shown adding to the requirement for borrowing from the public.

The financing accounts added \$4.1 billion to borrowing requirements in 1995. They are estimated to add substantially more in 1996 and later years, mainly because of the growth of the direct student loan program expected under current law. Beginning this year, eligible educational institutions may select either the direct lending or the guaranteed lending program for their students. Since direct loans require cash disbursements equal to the full amount of the loans when the loans are made, Federal borrowing requirements are initially increased. The conversion of a Small Business Administration program from loan guarantees to direct loans will also contribute to this effect. The total net financing disbursements for all credit programs are estimated to reach a peak in 2000 and then to decline gradually because of loan repayments.

Debt held by Government accounts.—The amount of Federal debt issued to Government accounts depends largely on the surpluses of the trust funds, both on-budget and off-budget, which owned 95 percent of the total Federal debt held by Government accounts at the end of 1995. In 1997, for example, the total trust fund surplus is estimated to be \$123.8 billion, and Government accounts are estimated to invest \$127.2 billion in Federal securities. The small difference is because some other accounts hold Federal debt and because the trust funds may change the amount of their cash assets not currently invested. The amounts held in major accounts and the annual investments are shown in Table 11-4.

Agency Debt

Several Federal agencies, shown in Table 11-3, sell debt securities to the public and to other Government accounts. During 1995, agencies repaid \$1.2 billion. Agency debt is only one percent of Federal debt held by the public.

The reason for issuing agency debt differs considerably from one agency to another. The predominant agency borrower from the public is the Tennessee Valley Authority, which had \$25.0 billion outstanding at the end of 1995, or 92 percent of all agency debt held by the public. TVA debt was primarily sold to finance capital expenditures and to refund other issues of its existing debt.

The Federal Housing Administration, on the other hand, has for many years issued both checks and debentures as means of paying claims to the public that arise from defaults on FHA-insured mortgages. Issuing debentures to pay the Government's bills is equivalent to borrowing from the public and then paying the bills by disbursing the cash borrowed, so the transaction is recorded as being simultaneously an outlay and a borrowing. The notes are therefore classified as agency debt. The borrowing by FHA and other agencies that

⁶For further explanation of the off-budget Federal entities, see Chapter 20, "Off-Budget Federal Entities."

⁷The Federal Credit Reform Act of 1990 (sec. 505(b)) requires that the financing accounts be non-budgetary. As explained in Chapter 20, "Off-Budget Federal Entities," they are non-budgetary in concept because they do not measure cost. For additional discussion of credit reform, see Chapter 8, "Underwriting Federal Credit and Insurance," and Chapter 24, "Budget System and Concepts and Glossary."

Table 11-3. AGENCY DEBT

(In millions of dollars)

	Borrowing or repayment (-) of debt			Debt end of 1997 estimate
	1995 actual	1996 estimate	1997 estimate	
Borrowing from the public:				
Defense		-6		
Housing and Urban Development:				
Federal Housing Administration	-24			71
Interior				13
Small Business Administration:				
Participation certificates: SBIC and section 505 development company		-67		7
Architect of the Capitol	-1	-1	-2	179
Farm Credit System Financial Assistance Corporation				1,261
Federal Deposit Insurance Corporation:				
FSLIC Resolution Fund	-32	-32	-31	95
National Archives	-4	-4	-4	286
Tennessee Valley Authority	-1,162	645	-1,203	24,402
Total, borrowing from the public	-1,223	534	-1,240	26,314
Borrowing from other funds:				
Housing and Urban Development:				
Federal Housing Administration	-1			16
Postal Service Fund ¹		4,406	-508	3,898
Tennessee Valley Authority ¹		3,200		3,200
Total, borrowing from other funds	-1	7,606	-508	7,114
Total, agency borrowing	-1,224	8,140	-1,748	33,428

¹The "borrowing from other funds" by the Postal Service fund and TVA in 1996 was the result of the FFB swapping Postal Service and TVA securities with the Civil Service Retirement and Disability trust fund in exchange for Treasury securities having an equal present value. The amount of Postal Service securities exchanged (in terms of face value) was \$4,665 million, of which \$258 million was repaid later in 1996 to arrive at the estimated net "borrowing" of \$4,406 million. See the narrative for further explanation.

have engaged in similar transactions is thus inherent in the way that their programs operate.⁸

Some types of lease-purchase contracts are equivalent to direct Federal construction financed by Federal borrowing. The Federal Government guaranteed the debt used to finance the construction of buildings for the National Archives and the Architect of the Capitol and has exercised full control over the design, construction, and operation of the buildings. The construction expenditures and interest were therefore classified as Federal outlays, and the borrowing was classified as Federal agency borrowing from the public. The securities used to finance the construction of the building for the Architect of the Capitol were zero-coupon certificates, for which the sales price was about one-fourth of par value. As an exception to the normal treatment of agency debt, but like Treasury zero-coupon bonds, they are recorded at the sales price plus the amortized discount. The interest is accrued as an outlay.

The proper budgetary treatment of lease-purchases was further examined in connection with the Budget Enforcement Act of 1990. Several changes were made. Among other decisions, it was determined that outlays for a lease-purchase in which the Government assumes substantial risk will be recorded in an amount equal to the asset cost over the period during which the contractor constructs, manufactures, or purchases the asset; if the asset already exists, the outlays will be

recorded when the contract is signed. Agency borrowing will be recorded each year to the extent of these outlays. The agency debt will subsequently be redeemed over the lease payment period by a portion of the annual lease payments. This rule was effective starting in 1991. However, no lease-purchase agreements in which the Government assumes substantial risk have yet been authorized or are estimated for 1996 or 1997.

The amount of agency securities recognized as part of gross Federal debt in tables 11-1 and 11-3 has been substantially affected by borrowing from the Federal Financing Bank (FFB). The FFB is an entity within the Treasury Department, one of whose purposes is to substitute Treasury borrowing for agency borrowing from the public. It has the authority to purchase agency debt and finance these purchases by borrowing from the Treasury. Agency borrowing from the FFB is not included in gross Federal debt. It would be double counting to add together (a) the agency borrowing from the FFB and (b) the Treasury borrowing from the public that was needed to provide the FFB with the funds to lend to the agencies.

As explained in a later section of this chapter, the debt of the agencies that borrow from the FFB is not subject to the statutory debt limitation. This enabled Treasury to raise additional cash to avoid default during the recent dispute with Congress over the budget and the debt limit. On February 14, 1996, FFB swapped most of its holdings of TVA and Postal Service debt in exchange for Treasury securities held by the Civil Service Retirement and Disability trust fund (CSRDF).

⁸The debt securities of the FSLIC Resolution fund and Department of the Interior were also issued as a means of paying specified bills. The budgetary treatment of these and similar securities is further explained in *Special Analysis E* of the 1989 Budget, pp. E-25 to E-26; and *Special Analysis E* of the 1988 Budget, pp. E-27 to E-28.

The Treasury securities, which were subject to the debt limit, were canceled in an exchange that took place between the FFB and the Treasury immediately afterwards. This reduced the amount of debt subject to limit, which allowed Treasury to sell to the public more securities that are subject to the debt limit.

The TVA and Postal Service securities acquired by CSRDF are included in gross Federal debt shown in table 11-2 and are included in table 11-3 as amounts borrowed from other funds. Including debt held by Government accounts in gross Federal debt is not double counting, because Treasury does not have to borrow from the public in order for these accounts to buy the securities. Moreover, the TVA and Postal Service securities acquired by CSRDF replaced Treasury securities, which were counted in gross Federal debt.

The swap between FFB and CSRDF was equal in present value terms, measuring how much the securities were worth to CSRDF at the time of the exchange, but the face value of the Treasury and agency securities differed: \$7.9 billion of agency securities at face value were swapped for \$8.6 billion of Treasury securities at face value. Agency securities such as those held by CSRDF and Treasury securities of the type held by CSRDF are recorded at face value—rather than at the current amount of their discounted or present value—in calculating gross Federal debt and the other debt series shown in this chapter. Therefore, the tables in this chapter show that agency debt increased by \$7.9 billion, Treasury debt decreased by \$8.6 billion, and gross Federal debt decreased by \$0.7 billion. CSRDF is protected by various provisions from default risk on its agency debt securities. It is assumed for purposes of the estimates in the budget that CSRDF will hold the agency debt until maturity (or call date), at which time the principal repayments will be invested in Treasury securities.

Debt Held by Government Accounts

Trust funds, and some public enterprise revolving funds and special funds, accumulate cash in excess of current requirements in order to meet future obligations. These cash surpluses are invested mostly in Treasury debt and, to a very small extent, in agency debt.⁹

Investment by trust funds and other Government accounts was around \$10 billion per year in the early 1980s. Primarily due to the Social Security Amendments of 1983, an expanding economy, and the creation of the military retirement trust fund, investment has risen greatly since then. It was \$106.0 billion in 1995 and, as shown in Table 11-4, it is estimated to be \$127.7 billion in 1997. The holdings of Federal securities by Government accounts are estimated to rise to \$1,565.8 billion by the end of 1997, or 28 percent of the gross Federal debt. This percentage is estimated

to rise further as the budget moves toward balance and borrowing from the public declines.

The large investment by Government accounts is concentrated among a few trust funds. The two social security trust funds—old-age and survivors insurance and disability insurance—have a large combined surplus and invest increasing amounts almost each year: a total of \$201.6 billion during 1995–97, which constitutes 57 percent of the total estimated investment by Government accounts.

In addition to these two funds, the largest current investors are the two major Federal employee retirement funds: the civil service retirement and disability trust fund and the military retirement trust fund. They account for 28 percent of the total investment by Government accounts during 1995–97. Altogether, the investment of social security and these two retirement funds comprises 84 percent of the investment by all Government accounts during this period. At the end of 1997, they are estimated to account for 74 percent of the total holdings by Government accounts. Another 8 percent will be accounted for by the hospital insurance trust fund, which invested heavily in the past but does not add to its invested balances over this period.

Technical note on measurement.—The Treasury securities held by Government accounts consist almost entirely of the Government account series. Most were issued at par value (face value), and the securities issued at a discount or premium have traditionally been recorded at par in the OMB and Treasury reports on Federal debt. However, there have recently been two exceptions. First, in 1991 Treasury began to issue zero-coupon bonds to the Pension Benefit Guaranty Corporation (PBGC). Because the purchase price was a small fraction of par value and the amounts were large, the PBGC holdings were recorded at purchase price plus amortized discount. The valuation method was the estimated market or redemption price. Treasury aggregated all debt held by Government accounts at par but subtracted the unamortized discount in calculating “net federal securities held as investments of government accounts.” These securities were redeemed during 1994.

Second, in September 1993 Treasury also began to subtract the unrealized discount on other Government account series securities in calculating “net federal securities held as investments of government accounts.” Unlike the discount recorded for PBGC or for debt held by the public, this discount is the amount at the time of issue and is not amortized over the term of the security. In Table 11-4 it is shown as a separate item at the end of the table and not distributed by account. The data for 1989–92 were revised retroactively for this change.

Limitations on Federal Debt

Definition of debt subject to limit.—Statutory limitations have normally been placed on Federal debt. Until World War I, the Congress ordinarily authorized

⁹As discussed in the section on the statutory debt limit, certain funds were not fully invested during part of fiscal year 1996 due to the differences between the President and the Congress over the budget and the debt limit. It is assumed for purposes of the estimates in the budget that these funds will be fully invested by the end of the year.

Table 11-4. DEBT HELD BY GOVERNMENT ACCOUNTS ¹

(In millions of dollars)

Description	Investment or disinvestment (-)			Holdings end of 1997 estimate
	1995 actual	1996 estimate	1997 estimate	
Investment in Treasury debt:				
Overseas Private Investment Corporation	149	104	126	2,330
Defense-Civil: Military retirement trust fund	7,596	4,381	3,686	121,030
Energy: Nuclear waste disposal fund	455	672	658	6,012
Health and Human Services:				
Federal old-age and survivors insurance trust fund ²	34,522	50,565	62,293	560,805
Federal disability insurance trust fund ²	29,125	14,423	10,681	60,329
Federal hospital insurance trust fund	1,149	-6,423	3,027	126,468
Federal supplementary medical insurance trust fund	-7,975	11,321	2,504	27,338
Housing and Urban Development:				
Federal Housing Administration mutual mortgage fund	946	1,960	720	9,353
Other HUD	503	407	421	5,252
Interior:				
Outer Continental Shelf deposit funds	91	51	-1,468	20
Abandoned Mine Reclamation fund	130	108	93	1,516
Labor:				
Unemployment trust fund	7,354	6,263	6,442	59,846
Pension Benefit Guaranty Corporation	460	860	1,043	7,635
State: Foreign Service retirement and disability trust fund	622	640	664	9,105
Transportation:				
Highway trust fund	837	2,857	2,537	23,925
Airport and airway trust fund	-1,061	-2,855	393	8,683
Oil spill liability trust fund	175	-38	238	1,382
Treasury: Exchange stabilization fund	-4,926	151	215	2,765
Veterans Affairs:				
National service life insurance trust fund	101	29	400	12,383
Other trust funds	25	12	12	1,712
Federal funds	-34	-6	-10	552
Environmental Protection Agency:				
Hazardous substance trust fund	840	141	1,599	7,921
Leaking underground storage tank trust fund	154	-17	163	1,209
Office of Personnel Management:				
Civil Service retirement and disability trust fund ³	27,237	19,725	27,936	413,787
Employees life insurance fund	910	981	937	17,757
Employees health benefits fund	316	76	204	8,170
Federal Deposit Insurance Corporation:				
Bank Insurance fund	7,045	1,435	1,779	24,231
FSLIC Resolution fund	-1,122	-9	198	717
Savings Association Insurance fund	1,107	5,867	106	9,573
National Credit Union Administration: Share insurance fund	276	177	200	3,680
Postal Service fund ²	-21	-249	.....	1,000
Railroad Retirement Board trust funds	2,237	-456	814	14,798
Tennessee Valley Authority	-2,712	-22	-1,220	.....
Other Federal funds	311	-139	-296	3,695
Other trust funds	620	404	639	6,934
Unrealized discount ¹	-1,415	.....	.....	-3,188
Total, investment in Treasury debt ¹	106,025	113,396	127,734	1,558,726
Investment in agency debt:				
Housing and Urban Development: Government National Mortgage Association	-1	.....	.....	16
Office of Personnel Management: Civil Service retirement and disability trust fund ³ .....	.....	7,606	-508	7,098
Total, investment in agency debt	-1	7,606	-508	7,114
Total, investment in Federal debt ¹	106,024	121,002	127,226	1,565,840
MEMORANDUM				
Investment by Federal funds (on-budget)	2,586	11,565	4,033	77,327
Investment by Federal funds (off-budget)	-21	-249	.....	1,000
Investment by trust funds (on-budget)	41,137	44,646	51,687	869,546
Investment by trust funds (off-budget)	63,648	64,988	72,974	621,134
Investment by deposit funds ⁴	91	51	-1,468	20
Unrealized discount ¹	-1,415	.....	.....	-3,188

¹ Debt held by Government accounts is measured at face value except for the unrealized discount on Government account series securities, which is not distributed by account. Changes in the unrealized discount are not estimated.

² Off-budget Federal entity.

³ The FFB swapped Treasury securities with the Civil Service retirement and disability trust fund (CSRDF) in 1996 in exchange for securities having an equal present value. The result is shown in this table as an investment in agency debt and a reduction of investment in Treasury debt for CSRDF. CSRDF acquired agency securities having a face value of \$7,865 million, of which \$258 million was redeemed later in 1996 for an estimated net investment during the year of \$7,606 million. See narrative in the section on agency debt for further explanation.

⁴ Only those deposit funds classified as Government accounts.

a specific amount of debt for each separate issue. Beginning with the Second Liberty Bond Act of 1917, however, the nature of the limitation was modified in several steps until it developed into a ceiling on the total amount of most Federal debt outstanding. The latter type of limitation has been in effect since 1941. The limit currently applies to most debt issued by the Treasury since September 1917, whether held by the public or by Government accounts; and other debt issued by Federal agencies that, according to explicit statute, is guaranteed as to principal and interest by the United States Government.

The lower part of Table 11-2 compares total Treasury debt with the amount of Federal debt that is subject to the limit. Most of the Treasury debt not subject to limit was issued by the FFB (Federal Financing Bank). It is authorized to have outstanding up to \$15 billion of publicly issued debt, and this amount was issued several years ago to the Civil Service Retirement and Disability trust fund. The remaining Treasury debt not subject to limit consists almost entirely of silver certificates and other currencies no longer being issued.

The sole type of agency debt currently subject to the general limit is the debentures issued by the Federal Housing Administration, which were only \$87 million at the end of 1995. Some of the other agency debt, however, is subject to its own statutory limit. For example, the Tennessee Valley Authority is limited to \$30 billion of securities outstanding (including its debt to the FFB, the Treasury, or other Government accounts).

The comparison between Treasury debt and debt subject to limit also includes an adjustment for measurement differences in the treatment of discounts and premiums. As explained elsewhere in this chapter, debt securities may be sold at a discount or premium, and the measurement of debt may take this into account rather than recording the face value of the securities. However, the treatment differs between gross Federal debt (and its components) and the statutory definition of debt subject to limit. An adjustment is needed to derive debt subject to limit (as defined by law) from Treasury debt, and this adjustment is specified in footnote 5 to Table 11-2. The amount is relatively small: \$6.1 billion at the end of 1995 compared to the total discount (less premium) of \$80.0 billion recognized on Treasury securities.

Methods of changing the debt limit.—The statutory debt limit has frequently been changed. Since 1960, Congress has passed 65 separate acts to raise the limit, extend the duration of a temporary increase, or revise the definition.

The statutory limit can be changed by normal legislative procedures. It can also be changed as a consequence of the annual congressional budget resolution, which is not itself a law. The budget resolution includes a provision specifying the appropriate level of the debt subject to limit at the end of each fiscal year. The rules of the House of Representatives provide that, when the budget resolution is adopted by both Houses of the Congress, the vote in the House of Representa-

tives is deemed to have been a vote in favor of a joint resolution setting the statutory limit at the level specified in the budget resolution. The joint resolution is transmitted to the Senate for further action. It may be amended in the Senate to change the debt limit provision or in any other way. If it passes both Houses of the Congress, it is sent to the President for his signature. This method directly relates the decision on the debt limit to the decisions on the Federal deficit and other factors that determine the change in the debt subject to limit. Both methods have been used numerous times. In 1995, however, the House of Representatives suspended its special rule for the fiscal year 1996 budget resolution.

Recent changes in the debt limit.—Major increases in the debt limit were enacted as part of the deficit reduction packages in 1990 and 1993. The Omnibus Budget Reconciliation Act of 1990 raised the limit to \$4,145 billion as part of the budget negotiations between the President and the Congress. The Omnibus Budget Reconciliation Act of 1993, which the President signed into law on September 30, 1993, raised the limit to \$4,900 billion. Both changes in law were preceded by one or more temporary increases in the limit before agreement was reached on the debt and the deficit reduction measures. These increases in the debt limit were both large enough to last over two years without a further change in law, the longest times without an increase since the period from 1946 to 1954.

The debt again approached the limit in 1995, and the limit again became part of the larger issue of deficit reduction. The Congressional Budget Resolution instructed the Ways and Means and the Finance Committees to submit provisions for the reconciliation bill that would increase the limit to \$5,500 billion.

As the debt came close to the limit in October and November 1995 without a budget agreement, the Treasury Department took several actions to control debt and cash more tightly in order to stay under the limit. It reduced or postponed auctions, suspended the issuance of State and local government series securities, and suspended "foreign add-ons" to Treasury bills and notes (additional amounts issued to Federal Reserve Banks as agents for foreign and international monetary authorities). Congress passed a bill raising the debt limit temporarily, but the President vetoed it on November 13. It would have limited the Treasury's powers to manage Federal debt to avoid default, and it would have reduced the limit by \$100 billion (to \$4,800 billion) when the temporary increase expired on December 13.

By November 15, 1995, the debt subject to limit was virtually at the limit and Treasury was obligated to make large cash payments. On that date, the Secretary of Treasury announced two steps to avoid default. He authorized the redemption of \$39.8 billion of Treasury securities held by the Civil Service Retirement and Disability trust fund (CSRDF), and he authorized not reinvesting the \$21.5 billion of Treasury securities held by the "G-fund" portion of the Thrift Savings Fund (the Federal Employees Retirement System's Government

Securities Investment Trust). This provided \$61.3 billion of additional borrowing authority. The law provides that at the end of a "debt limit suspension period" both funds are to be made whole with respect to lost interest and principal, so the beneficiaries of these funds do not suffer any losses.

The disagreement over how to reduce the deficit continued. Congress passed a budget reconciliation bill in December that included a provision increasing the debt limit to \$5,500 billion, but the bill included many provisions unacceptable to the President and he vetoed it. On December 29, Treasury was unable to issue securities to the CSRDF to invest the \$14.0 billion of interest payments that it received from the general fund and the FFB. In January, Treasury announced three further steps. The Secretary authorized the redemption of \$6.4 billion additional Treasury securities from CSRDF; the reinvestment of Treasury securities held by the Exchange Stabilization Fund (about \$3.9 billion) would be suspended; and agency securities held by the Federal Financing Bank would be swapped with an equivalent amount of Treasury securities held by CSRDF. As explained in the section of this chapter on agency securities, the latter step reduced the debt subject to limit by \$8.6 billion.

This was not enough, however, to ensure timely payment of social security benefits and other amounts payable at the beginning of March, and the Secretary of Treasury said he had no other options that were both

legal and prudent. Congress passed an act temporarily exempting from limit an amount of Treasury securities equal to the social security benefits payable in March 1996, with the exemption expiring at the earlier of an increase in the debt limit or March 15, 1996. The President signed the bill into law on February 8, the amount of the social security benefits was \$29.0 billion, and \$29.0 billion of cash management bills were sold under this authority later in the month. The debt limit issue remained to be resolved.

Federal funds financing and the change in debt subject to limit.—The change in debt held by the public, as shown in Table 11–2, is determined principally by the total Government deficit. The debt subject to limit, however, includes not only debt held by the public but also debt held by Government accounts. The change in debt subject to limit is therefore determined both by the factors that determine the total Government deficit and by the factors that determine the change in debt held by Government accounts.

The budget is composed of two groups of funds, Federal funds and trust funds. The Federal funds, in the main, are derived from tax receipts and borrowing and are used for the general purposes of the Government. The trust funds, on the other hand, are financed by taxes or other collections earmarked by law for specified

Table 11–5. FEDERAL FUNDS FINANCING AND CHANGE IN DEBT SUBJECT TO STATUTORY LIMIT

(In billions of dollars)

Description	1995 actual	Estimate						
		1996	1997	1998	1999	2000	2001	2002
Federal funds surplus or deficit (–)	–263.2	–256.5	–263.9	–224.3	–200.6	–177.2	–146.7	–118.4
(On-budget)	–265.2	–256.8	–261.3	–224.2	–202.1	–177.7	–148.5	–120.3
(Off-budget)	2.0	0.3	–2.6	–*	1.5	0.5	1.8	1.8
Means of financing other than borrowing:								
Change in: ¹								
Treasury operating cash balance	–2.0	–2.1	.....	.....	.....	.....	.....	.....
Checks outstanding, etc. ²	–8.3	1.2	–4.1	.....	.....	.....	.....	.....
Deposit fund balances ³	0.9	0.1	–1.5	.....	.....	.....	.....	.....
Seigniorage on coins	0.7	0.7	0.6	0.7	0.7	0.8	0.8	0.8
Less: Net financing disbursements:								
Direct loan financing accounts	–7.0	–17.9	–20.8	–25.2	–27.3	–27.3	–26.7	–25.7
Guaranteed loan financing accounts	2.9	–0.4	0.8	–2.0	–2.2	–2.4	–1.9	–1.9
Total, means of financing other than borrowing	–12.9	–18.4	–25.1	–26.5	–28.7	–29.0	–27.8	–26.8
Decrease or increase (–) in Federal debt held by Federal funds and deposit funds ⁴	–2.7	–11.4	–2.6	–0.7	1.2	–*	–0.9	–1.0
Increase or decrease (–) in Federal debt not subject to limit	–1.2	8.1	–1.7	–3.4	–0.1	–0.1	–0.2	–0.5
Total, requirement for Federal funds borrowing subject to debt limit	–280.0	–278.1	–293.3	–254.9	–228.3	–206.3	–175.7	–146.7
Adjustment for change in discount or premium ⁵	0.8	.....	.....	.....	.....	.....	.....	.....
Increase in debt subject to limit	279.3	278.1	293.3	254.9	228.3	206.3	175.7	146.7
ADDENDUM								
Debt subject to statutory limit ⁶	4,884.6	5,162.7	5,456.0	5,710.9	5,939.2	6,145.5	6,321.2	6,467.9

* \$50 million or less.

¹ A decrease in the Treasury operating cash balance (which is an asset) would be a means of financing the deficit and therefore have a positive sign. An increase in checks outstanding or deposit fund balances (which are liabilities) would also be a means of financing the deficit and therefore also have a positive sign.² Besides checks outstanding, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on sale of gold.³ Does not include investment in Federal debt securities by deposit funds classified as part of the public.⁴ Only those deposit funds classified as Government accounts.⁵ Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.⁶ The statutory debt limit is \$4,900 billion.

purposes, such as paying social security benefits or grants to State governments for highway construction.¹⁰

A Federal funds deficit must generally be financed by borrowing, either by selling securities to the public or by issuing securities to Government accounts. Federal funds borrowing consists almost entirely of the Treasury issuing securities that are subject to the statutory debt limit. Trust fund surpluses are almost entirely invested in these securities, and trust fund holdings include most of the debt held by Government accounts. The change in debt subject to limit is therefore determined principally by the Federal funds deficit, which is equal to the arithmetic sum of the total Government deficit and the trust fund surplus.

Table 11-5 derives the change in debt subject to limit. In 1997 the Federal funds deficit is estimated to be \$263.9 billion, and other factors increase the requirement to borrow subject to limit by \$29.4 billion. The largest other factor is the direct loan financing accounts. As explained in an earlier section, their disbursements are excluded from the budget by law because they do not represent a cost to the Government, but they have to be financed and they are currently growing. As a result, the debt subject to limit is estimated to increase by \$293.3 billion, which is \$129.0 billion more than the increase in debt held by the public.

As long as the trust fund surplus is large, the Federal funds deficit will be much more than the total Government deficit; and the increase in debt subject to limit will be much more than the increase in debt held by the public. The trust fund surplus through 2002 is estimated to grow still larger, so the debt limit will have to be increased in the future by much more than needed to finance the total Government deficit. This can be seen by comparing the annual increase in debt subject to limit in Table 11-5 with the annual deficit and borrowing from the public in Table 11-2. The increase in debt subject to limit is more than \$100 billion higher every year. In 2002, when the budget has a \$43.9 billion surplus, debt subject to limit increases by \$146.7 billion.

Debt Held by Foreign Residents

During most of American history the Federal debt was held almost entirely by individuals and institutions within the United States. In the late 1960s, as shown in Table 11-6, foreign holdings were just over \$10.0 billion, less than 5 percent of the total Federal debt held by the public.

Foreign holdings began to grow much faster starting in 1970. This increase has been primarily due to foreign decisions, both official and private, rather than the direct marketing of these securities to foreign residents. At the end of fiscal year 1995 foreign holdings of Treasury debt were \$848.1 billion, which was 23.5 percent of the total debt held by the public. Foreign central banks owned 55 percent of the Federal debt held by

foreign residents; private investors owned nearly all the rest. All the Federal debt held by foreign residents is denominated in dollars.

Although the amount of debt held by foreigners has grown greatly since the early 1980s, the proportion they own did not change much during this period until 1995. Last year, however, foreign holdings increased by \$192.5 billion,¹¹ which was more than the total Federal borrowing from the public. As a result, the percentage of Federal debt held by foreign residents grew from 19.1 percent at the end of 1994 to 23.5 percent at the end of 1995. The largest part of foreign purchases was by private investors, influenced, among other factors, by rising U.S. bond prices. Foreign central banks purchases to support the dollar were a contributing factor.

Foreign holdings of Federal debt are almost one-fourth of the foreign-owned assets in the U.S., and foreign purchases of Federal debt securities are normally only a moderate part of the total capital inflow from abroad. The foreign purchases of Federal debt securities do not measure the full impact of the capital inflow from abroad on the market for Federal debt securities. The capital inflow supplies additional funds to the credit market generally, which affect the market for Federal debt. For example, the capital inflow includes deposits in U.S. financial intermediaries that themselves buy Federal debt.

Federally Assisted Borrowing

The effect of the Government on borrowing in the credit market arises not only from its own borrowing to finance Federal operations but also from its assistance to certain borrowing by the public. Federally assisted borrowing is of two principal types: Government-guaranteed borrowing, which is another term for guaranteed lending, and borrowing by Government-sponsored enterprises (GSEs). The Federal Government also exempts the interest on most State and local government debt from income tax; and it insures the deposits of banks and thrift institutions, which themselves make loans.

Federal credit assistance is discussed in Chapter 8, "Underwriting Federal Credit and Insurance." Detailed data are presented in tables at the end of that chapter. Table 11-7 brings together the totals of Federal and federally assisted borrowing and lending and shows the trends since 1965 in terms of both dollar amounts and, more significantly, as percentages of total credit market borrowing or lending. The Federal and federally assisted lending is recorded at face value. It does not measure the degree of subsidy provided by the credit assistance, nor does it indicate the extent to which the credit assistance changed the allocation of financial and real resources.

The Federal borrowing participation rate has trended strongly upward since the 1960s. Much of the increase of the past decade compared to earlier periods has been

¹⁰For further discussion of the trust funds and Federal funds groups, see Chapter 18, "Trust Funds and Federal Funds."

¹¹The amount reported by the Bureau of Economic Analysis, Department of Commerce, was less due to a different method of valuing the securities.

Table 11-6. FOREIGN HOLDINGS OF FEDERAL DEBT

(Dollar amounts in billions)

Fiscal year	Debt held by the public			Borrowing from the public			Interest on debt held by the public		
	Total	Foreign ¹	Percent- age for- eign	Total ²	Foreign ¹	Percent- age for- eign	Total ³	Foreign ⁴	Percent- age for- eign
1965	260.8	12.3	4.7	3.9	0.3	6.4	9.6	0.5	4.9
1966	263.7	11.6	4.4	2.9	-0.7	n.a.	10.1	0.5	5.1
1967	266.6	11.4	4.3	2.9	-0.2	n.a.	11.1	0.6	5.1
1968	289.5	10.7	3.7	22.9	-0.7	n.a.	11.9	0.7	5.6
1969	278.1	10.3	3.7	-1.3	-0.4	n.a.	13.5	0.7	5.3
1970	283.2	14.0	5.0	3.5	3.8	107.2	15.4	0.8	5.5
1971	303.0	31.8	10.5	19.8	17.8	89.8	16.2	1.3	7.9
1972	322.4	49.2	15.2	19.3	17.3	89.5	16.8	2.4	14.2
1973	340.9	59.4	17.4	18.5	10.3	55.3	18.7	3.2	17.2
1974	343.7	56.8	16.5	2.8	-2.6	n.a.	22.7	4.1	17.9
1975	394.7	66.0	16.7	51.0	9.2	18.0	25.0	4.5	18.2
1976	477.4	69.8	14.6	82.2	3.8	4.6	29.3	4.4	15.1
TQ	495.5	74.6	15.1	18.1	4.9	26.9	7.8	1.2	14.9
1977	549.1	95.5	17.4	53.6	20.9	39.0	33.8	5.1	15.0
1978	607.1	121.0	19.9	58.0	25.4	43.5	40.2	7.9	19.5
1979 ⁵	640.3	120.3	18.8	33.2	-0.7	n.a.	49.9	10.7	21.5
1980	709.8	121.7	17.1	69.5	1.4	2.0	62.8	11.0	17.5
1981	785.3	130.7	16.6	75.5	9.0	12.0	81.7	16.4	20.1
1982	919.8	140.6	15.3	134.4	9.9	7.4	101.2	18.7	18.5
1983	1,131.6	160.1	14.1	211.8	19.5	9.2	111.6	19.2	17.2
1984	1,300.5	175.5	13.5	168.9	15.4	9.1	133.5	20.3	15.2
1985 ⁵	1,499.9	222.9	14.9	199.4	47.4	n.a.	152.9	23.0	15.1
1986	1,736.7	265.5	15.3	236.8	42.7	18.0	159.3	24.2	15.2
1987	1,888.7	279.5	14.8	152.0	14.0	9.2	160.4	25.7	16.0
1988	2,050.8	345.9	16.9	162.1	66.4	40.9	172.3	29.9	17.4
1989	2,189.9	394.9	18.0	139.1	49.0	35.2	189.0	37.1	19.6
1990 ⁵	2,410.7	440.3	18.3	220.8	45.4	n.a.	202.4	40.3	19.9
1991	2,688.1	477.3	17.8	277.4	37.0	13.3	214.8	42.0	19.5
1992	2,998.8	535.2	17.8	310.7	57.9	18.6	214.5	40.5	18.9
1993	3,247.5	591.3	18.2	247.4	56.1	22.7	210.2	41.1	19.6
1994	3,432.1	655.6	19.1	184.7	64.3	34.8	210.6	44.5	21.1
1995	3,603.4	848.1	23.5	171.3	192.5	112.4	239.2	58.4	24.4

¹ Estimated by Treasury Department. These estimates exclude agency debt, the holdings of which are believed to be small. The data on foreign holdings are not recorded by methods that are strictly comparable with the data on debt held by the public. Projections are not available.

² Borrowing from the public is defined as equal to the change in debt held by the public from the beginning of the year to the end, except to the extent that the amount of debt is changed by reclassification.

³ Estimated as interest on the public debt less "interest received by trust funds" (subfunction 901 less subfunctions 902 and 903). Does not include the comparatively small amount of interest on agency debt or the offsets for interest on public debt received by other Government accounts.

⁴ Estimated by Bureau of Economic Analysis, Department of Commerce. These estimates include small amounts of interest from other sources, including the debt of Government-sponsored enterprises, which are not part of the Federal Government.

⁵ Benchmark revisions reduced the estimated foreign holdings of Federal debt as of December 1978 and increased the estimated foreign holdings as of December 1984 and December 1989. As a result, the data on foreign holdings in different time periods are not strictly comparable, and the "borrowing" from foreign residents in 1979, 1985, and 1989 reflects the benchmark revision as well as the net purchases of Federal debt securities.

n.a. = Not applicable due to negative numbers or benchmark revision.

due to higher GSE borrowing as well as Federal deficits. Furthermore, a rising part of federally assisted borrowing and lending in 1996 and 1997 is estimated to come from loan guarantees. The Federal lending par-

ticipation rate has been smaller and more stable over time than the borrowing participation rate, because Federal direct loans are much smaller than Federal borrowing.

Table 11-7. FEDERAL PARTICIPATION IN THE CREDIT MARKET

(Dollar amounts in billions)

	Actual											Estimates	
	1965	1970	1975	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997
Total net borrowing in credit market ¹	66.7	87.9	169.7	336.3	826.5	722.3	502.0	540.8	578.5	618.4	717.5	.....	.....
Federal borrowing from the public	3.9	3.5	51.0	69.5	199.4	220.8	277.4	310.7	247.4	184.7	171.3	165.3	164.3
Guaranteed borrowing	5.0	7.8	8.6	31.6	21.6	40.7	22.1	19.7	-2.0	38.7	26.2	55.8	63.2
Government-sponsored enterprise borrowing ²	1.2	4.9	5.3	21.4	57.9	115.4	124.6	150.8	170.2	140.0	158.3	130.0	154.4
Total, Federal and federally assisted borrowing	10.1	16.2	65.0	122.5	278.9	376.9	424.1	481.2	415.6	363.4	355.8	351.1	381.9
Federal borrowing participation rate (percent)	15.1	18.4	38.3	36.4	33.7	52.2	84.5	89.0	71.8	58.8	49.6	.....	.....
Total net lending in credit market ¹	66.7	87.9	169.7	336.3	826.5	722.3	502.0	540.8	578.5	618.4	717.5	.....	.....
Direct loans	2.0	3.0	12.7	24.2	28.0	2.8	-7.5	7.0	-1.7	-0.8	1.6	8.6	15.0
Guaranteed loans	5.0	7.8	8.6	31.6	21.6	40.7	22.1	19.7	-2.0	38.7	26.2	55.8	63.2
Government-sponsored enterprise loans ²	1.4	5.2	5.5	24.1	60.7	90.0	90.7	145.2	163.2	144.0	88.7	144.1	144.4
Total, Federal and federally assisted lending	8.3	15.9	26.9	79.9	110.3	133.5	105.3	171.9	159.5	181.9	116.5	208.5	222.6
Federal lending participation rate (percent)	12.4	18.1	15.9	23.8	13.3	18.5	21.0	31.8	27.6	29.4	16.2	.....	.....

¹ Total net borrowing (or lending) in credit market by domestic nonfinancial sectors excluding equities. Financial sectors are omitted to avoid double counting, since financial intermediaries both borrow and lend in the credit market. Source: Federal Reserve Board flow of funds accounts. Projections are not available.

² Most Government-sponsored enterprises (GSEs) are financial intermediaries. GSE borrowing (lending) is nevertheless compared with total credit market borrowing (lending) because GSE borrowing (lending) is a proxy for the borrowing (lending) by nonfinancial sectors that is intermediated by GSEs. It assists the ultimate nonfinancial borrower (lender) whose loans are purchased or otherwise financed by GSEs. In order to avoid double counting, GSE borrowing and lending are calculated net of transactions with Federal agencies, transactions between GSEs, and transactions in guaranteed loans.